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CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

MERRITT TOWNSHIP BAY COUNTY, MICHIGAN

FINANCIAL STATEMENTS MARCH 31, 2008

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INDEPENDENT AUDITORS' REPORT

July 1, 2008

Township Board
Township of Merritt
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Merritt, Bay County, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the index. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of the Township of Merritt as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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Township Board
Township of Merritt
July 1, 2008
Page 2

The accompanying management's discussion and analysis and budgetary comparison information, as identified in the index, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Merritt Township's basic financial statements. The accompanying other supplemental information, as identified in the index, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2008

Our discussion and analysis of the Township of Merritt's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2008.

Financial Highlights

The General Fund reported a decrease in fund balance of \$2,000 resulting in a balance of \$327,000 at the end of the year.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Township of Merritt financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds – the General Fund, Water A & B Fund, and Water C, D & E with all other funds presented in one column as nonmajor funds. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements for the Township's water operations. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent or trustee.

The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

Reporting the Township as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Township's finances is, "Is the Township better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2008

These two statements report the Township's net assets as a way to measure the Township's financial position. The change in net assets provides the reader a tool to assist in determining whether the Township's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, and facility conditions in arriving at their conclusion regarding the overall health of the Township.

Reporting the Township's Most Significant Funds

Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The Township's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the Township's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Proprietary Funds

These funds are reported in fund financial statements and generally report services for which the Township charges a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements.

This fund presents the Township's water operations that are managed by the Bay County Department of Water and Sewer. The Township has sole authority to set rates and is financially responsible for the integrity of the system. The financial statements reflect the financial position and results of operations for the system for the calendar year 2007.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2008

Fiduciary Funds

The Township is the trustee, or fiduciary, for tax collections. All of the Township's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We excluded these activities from the Township's other financial statements because the assets cannot be utilized by the Township to finance its operations.

Government-wide Financial Analysis

Financial position - The statement of net assets provides the perspective of the Township as a whole. Exhibit A provides a summary of the Township's net assets as of March 31, 2008 and 2007.

<u>Exhibit A</u>						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets						
Current and other assets	\$ 1,656,000	\$ 1,579,000	\$ 401,000	\$ 226,000	\$ 2,057,000	\$ 1,805,000
Capital assets - net of accumulated depreciation	531,000	595,000	4,235,000	3,619,000	4,766,000	4,214,000
Total assets	2,187,000	2,174,000	4,636,000	3,845,000	6,823,000	6,019,000
Liabilities						
Current liabilities	63,000	51,000	289,000	257,000	352,000	308,000
Long-term liabilities	32,000	123,000	3,232,000	2,779,000	3,264,000	2,902,000
Total liabilities	95,000	174,000	3,521,000	3,036,000	3,616,000	3,210,000
Net Assets						
Invested in property and equipment - net of related debt	459,000	434,000	767,000	605,000	1,226,000	1,039,000
Restricted	866,000	816,000	0	0	866,000	816,000
Unrestricted	767,000	750,000	348,000	204,000	1,115,000	954,000
Total net assets	<u>\$ 2,092,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,115,000</u>	<u>\$ 809,000</u>	<u>\$ 3,207,000</u>	<u>\$ 2,809,000</u>

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2008

Exhibit A , on the previous page, focuses on net assets. The Township's total net assets were \$ 3,207,000 at March 31, 2008. Capital assets net of related debt, totaling \$1,226,000 compares the original costs, less depreciation of the Township's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets of \$866,000 are reported separately to show legal constraints from debt requirements and legislation that limit the Township's ability to use those net assets for day-to-day operations.

The \$1,115,000 of unrestricted net assets of governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Revenue, Debt Service, Capital Projects and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

Results of operations - The results of this year's operations for the Township as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended March 31, 2008. Exhibit B provides a summary of the Township's operations for March 31, 2008 and 2007.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2008

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue						
Program revenues:						
Charges for services	\$ 55,000	\$ 53,000	\$785,000	\$522,000	\$840,000	\$575,000
General revenues:						
Property taxes	650,000	643,000	0	0	650,000	643,000
State revenue sharing	106,000	106,000	0	0	106,000	106,000
Investment earnings	51,000	56,000	10,000	8,000	61,000	64,000
Transer in (out)	20,000	0	(20,000)	0	0	0
Other	100,000	137,000	0	0	100,000	137,000
Total revenue	<u>982,000</u>	<u>995,000</u>	<u>775,000</u>	<u>530,000</u>	<u>1,757,000</u>	<u>1,525,000</u>
Function/Program Expenses						
General government	189,000	180,000	0	0	189,000	180,000
Public safety	94,000	95,000	0	0	94,000	95,000
Public works	192,000	190,000	0	0	192,000	190,000
Recreation and culture	1,000	2,000	0	0	1,000	2,000
Sanitation	71,000	65,000	0	0	71,000	65,000
Protective inspections	9,000	10,000	0	0	9,000	10,000
Other	4,000	3,000	0	0	4,000	3,000
Interest on long term debt	6,000	6,000	0	0	6,000	6,000
Payment to Enterprise Fund	324,000	326,000	0	0	324,000	326,000
Water	<u>0</u>	<u>0</u>	<u>468,000</u>	<u>387,000</u>	<u>468,000</u>	<u>387,000</u>
Total expenses	<u>890,000</u>	<u>877,000</u>	<u>468,000</u>	<u>387,000</u>	<u>1,358,000</u>	<u>1,264,000</u>
Increase in Net Assets	<u>\$ 92,000</u>	<u>\$118,000</u>	<u>\$307,000</u>	<u>\$143,000</u>	<u>\$399,000</u>	<u>\$261,000</u>

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2008

As reported in the statement of activities, the cost of all of our governmental and business-type activities this year was \$1,358,000. Certain activities were partially funded by \$840,000 from those who benefited from the programs. We paid for the remaining "public benefit" portion of our governmental and business-type activities with \$650,000 in taxes, \$106,000 in State revenue sharing, and with our other revenues, such as interest and miscellaneous revenues.

The Township experienced an increase in net assets of \$399,000 mainly due to the increase in the charges for water services at the Department of Water and Sewer.

The Township's Funds

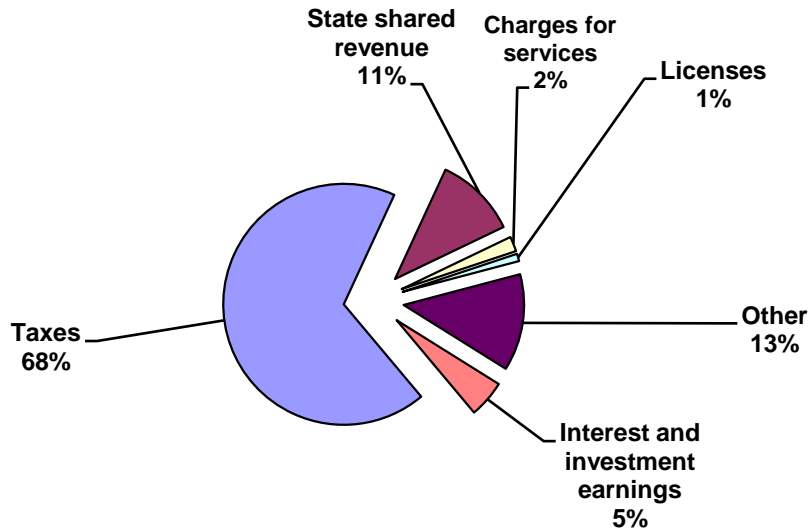
The Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

The Township's governmental funds reported a combined fund balance of \$1,633,000, which is above last year's total of \$1,566,000. The schedule below details the fund balance and the total change in fund balances as of March 31, 2008 and 2007.

	<u>Fund Balance</u> <u>March 31, 2008</u>	<u>Fund Balance</u> <u>March 31, 2007</u>	<u>Increase</u> <u>(Decrease)</u>
General fund	\$ 327,000	\$ 325,000	\$ 2,000
Special revenue funds	389,000	425,000	(36,000)
Debt service funds	917,000	813,000	104,000
Capital projects fund	0	3,000	(3,000)
Total	<u>\$ 1,633,000</u>	<u>\$ 1,566,000</u>	<u>\$ 67,000</u>

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2008

The graph below details the major sources of the Township's revenues.



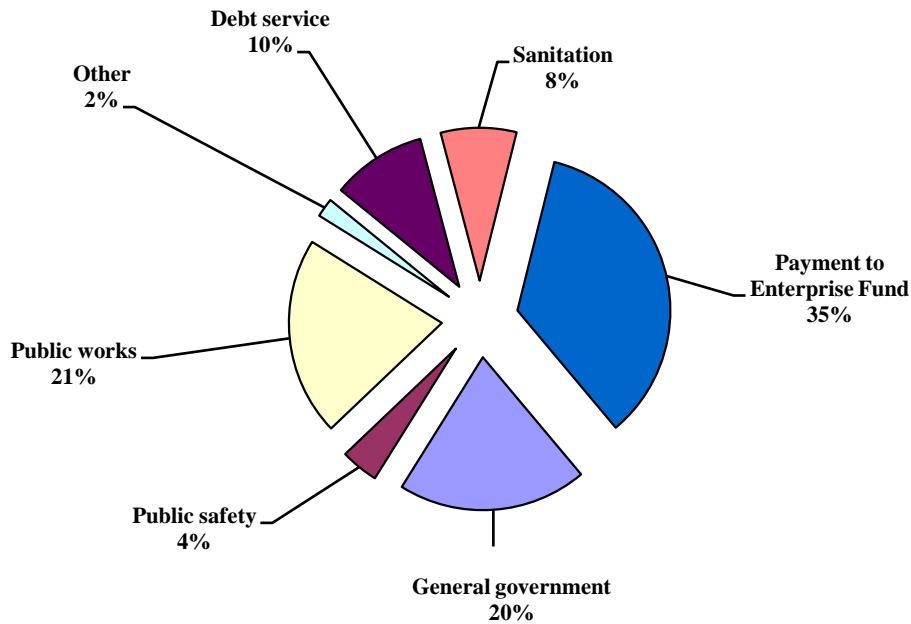
The chart below compares current year revenues with last year.

	2008	2007	Percentage Change
<i>Revenues by Function</i>			
Taxes	\$ 650,000	\$ 643,000	1%
State shared revenue	106,000	106,000	0%
Charges for services	23,000	21,000	10%
Licenses and permits	6,000	9,000	-33%
Interest and investment earnings	51,000	56,000	-9%
Bond proceeds	0	200,000	-100%
Other	126,000	160,000	-21%
Total	<u>\$ 962,000</u>	<u>\$ 1,195,000</u>	<u>-19%</u>

Revenues are down \$233,000 or 19% mainly due to the fact that there were no new loans or grant revenue received in the current fiscal year.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2008

The graph below details the major expenditure categories of the Township.



The chart below compares current year expenditures with last year.

	2008	2007	Percentage Change
<i>Expenditures by Function</i>			
General government	\$ 181,000	\$ 185,000	-2%
Public safety	37,000	362,000	-90%
Public works	192,000	190,000	1%
Sanitation	71,000	65,000	9%
Other	14,000	15,000	-7%
Debt service	95,000	45,000	111%
Payment to Enterprise Fund	324,000	326,000	-1%
Total	<u>\$ 914,000</u>	<u>\$ 1,188,000</u>	<u>-23%</u>

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2008

Expenditures are down \$274,000 or 23% from the prior year mostly due to the purchase of a new fire truck in the prior year.

Water System Fund - The Township's Proprietary fund (the Bay County DWS Merritt-Portsmouth Water Enterprise Fund) reported net assets of \$1,115,000 which is an increase of \$307,000 over last year's net assets of \$809,000.

General Fund Budgetary Highlights

Over the course of the year, the Township revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- There was no change in the original budget for revenues. Budget expenditures decreased by \$3,500. Those changes were mainly because of an increased third cutting of weeds and the revision of the Township Master Plan.
- Actual revenues exceeded budgeted revenues by approximately \$28,000 during the fiscal year. The excess is mostly due to the fact that interest income and revenue from early water assessment payoffs were greater than anticipated when the budget was prepared.
- Actual expenditures for the year were approximately \$237,000 less than anticipated mainly in the contingency, general government area and capital outlay. The excess is mostly due to the fact that the Township anticipated greater expenditures when the budget was prepared than what actually occurred.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2008

Capital Assets

At March 31, 2008, the Township had \$4.8 million invested in a broad range of capital assets, including land, buildings, furniture, equipment and water systems. This amount represents a net increase (including additions and disposals) of approximately \$552,000 from last year.

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 94,000	\$ 94,000	\$ 0	\$ 0	\$ 94,000	\$ 94,000
Buildings and improvements	814,000	812,000	0	0	814,000	812,000
Vehicles	506,000	506,000	0	0	506,000	506,000
Machinery and equipment	222,000	222,000	0	0	222,000	222,000
Water system	0	0	5,331,000	4,585,000	5,331,000	4,585,000
 Total capital assets	 1,636,000	 1,634,000	 5,331,000	 4,585,000	 6,967,000	 6,219,000
 Less accumulated depreciation	 1,105,000	 1,039,000	 1,096,000	 966,000	 2,201,000	 2,005,000
 Net capital assets	 <u>\$ 531,000</u>	 <u>\$ 595,000</u>	 <u>\$ 4,235,000</u>	 <u>\$ 3,619,000</u>	 <u>\$ 4,766,000</u>	 <u>\$ 4,214,000</u>

This year's additions of \$2,000 consisted of an automatic handicap door opener.

This year's additions for Business-Type Activities for the water system included the construction of waterlines on Reese Road in the amount of \$745,787.

We present more detailed information about our capital assets in the notes to the financial statements.

The township does not anticipate purchasing any additional capital outlay next year.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2008

Debt

At the end of this year, the Township had \$3.5 million in long-term debt outstanding versus \$3.15 in the previous year – a change of 12%. The Township's debt is related to water system improvements and is reported in the proprietary fund as the Bay County Department of Water and Sewer Merritt-Portsmouth Enterprise Fund and an installment purchase contract for a fire truck. This debt is summarized as follows:

	<u>2008</u>	<u>2007</u>
Governmental activities	\$ 71,000	\$ 160,000
Business-type activities	3,448,000	2,993,000
	<u>\$ 3,519,000</u>	<u>\$ 3,153,000</u>

The Township's General Obligation Bond rating continues to be equivalent to the State's credit rating. The Township does not anticipate any additional water projects in which additional debt would be needed in the next fiscal year (2008/2009).

Factors Expected to Have an Effect on Future Operations

The ever uncertain and economically stressed State Budget is always a concern as to the stability State Revenue Sharing to Townships.

Contacting The Township's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, contact the Township Clerk's Office at 48 East Munger Road, Munger, MI 48747

Merritt Township
Statement of Net Assets
March 31, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and investments	\$ 1,592,311	\$ 347,287	\$ 1,939,598
Receivables:			
Accounts receivable	0	51,172	51,172
Accrued interest receivable	0	1,278	1,278
Taxes receivable	54,783	0	54,783
Due from fiduciary funds	1,158	0	1,158
Prepaid expenses	7,657	1,956	9,613
Capital assets less accumulated depreciation of \$ 2,201,698	531,042	4,234,785	4,765,827
 Total assets	 2,186,951	 4,636,478	 6,823,429
<u>Current Liabilities</u>			
Bonds payable	39,045	221,399	260,444
Accounts payable	21,900	47,404	69,304
Accrued interest payable	293	18,917	19,210
Hall security deposit	1,100	447	1,547
Compensated absences	0	870	870
Total current liabilities	62,338	289,037	351,375
<u>Long-term Liabilities</u>			
Compensated absences	0	4,933	4,933
Bonds payable	32,290	3,227,155	3,259,445
Total long-term liabilities	32,290	3,232,088	3,264,378
 Total liabilities	 94,628	 3,521,125	 3,615,753
<u>Net Assets</u>			
Investment in capital assets - net of related debt	459,414	767,314	1,226,728
Restricted for debt service	866,200	0	866,200
Unrestricted	766,709	348,039	1,114,748
 Total net assets	 \$ 2,092,323	 \$ 1,115,353	 \$ 3,207,676

See accompanying notes to financial statements.

Merritt Township
Statement of Activities
For the Year Ended March 31, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants/Contributions	Governmental Activities	Business-type Activities	Total
Primary government:						
General government	\$ 188,856	\$ 48,497	\$ 0	\$ (140,359)	\$ 0	\$ (140,359)
Public safety	93,625	0	0	(93,625)	0	(93,625)
Public works	192,279	0	0	(192,279)	0	(192,279)
Recreation and culture	1,105	0	0	(1,105)	0	(1,105)
Sanitation	71,143	0	0	(71,143)	0	(71,143)
Protective inspections	9,421	6,046	0	(3,375)	0	(3,375)
Other	3,581	0	0	(3,581)	0	(3,581)
Interest on long term debt	6,096	0	0	(6,096)	0	(6,096)
Payment to Enterprise Fund	323,621	0	0	(323,621)	0	(323,621)
Total governmental activities	889,727	54,543	0	(835,184)	0	(835,184)
Business-type activities:						
Water	468,030	784,663	0	0	316,633	316,633
Total business-type activities	468,030	784,663	0	0	316,633	316,633
Total	\$ 1,357,757	\$ 839,206	\$ 0	(835,184)	316,633	(518,551)
General revenues:						
Taxes				650,185	0	650,185
State shared revenue				106,268	0	106,268
Investment earnings				50,844	10,041	60,885
Transfer in (out)				19,925	(19,925)	0
Other				99,992	0	99,992
Total general revenues				927,214	(9,884)	917,330
Change in net assets				92,030	306,749	398,779
Net assets - beginning of year				2,000,293	808,604	2,808,897
Net assets - end of year				\$ 2,092,323	\$ 1,115,353	\$ 3,207,676

See accompanying notes to financial statements.

Merritt Township
Governmental Funds
Balance Sheet
March 31, 2008

		<u>Debt Service Funds</u>		Other Nonmajor Governmental Funds	Total
	<u>General</u>	<u>Water A & B</u>	<u>Water C, D & E</u>		
<u>ASSETS</u>					
Cash and investments	\$ 322,509	\$ 472,173	\$ 222,153	\$ 575,476	\$ 1,592,311
Due from fiduciary funds	1,158	0	0	0	1,158
Prepaid expenditures	7,657	0	0	0	7,657
Taxes receivable	4,365	11,567	13,902	24,949	54,783
Total assets	<u>\$ 335,689</u>	<u>\$ 483,740</u>	<u>\$ 236,055</u>	<u>\$ 600,425</u>	<u>\$ 1,655,909</u>
<u>LIABILITIES AND FUND BALANCE</u>					
<u>Liabilities</u>					
Accounts payable	\$ 7,190	\$ 0	\$ 0	\$ 14,710	\$ 21,900
Hall security deposits	1,100	0	0	0	1,100
Total liabilities	<u>8,290</u>	<u>0</u>	<u>0</u>	<u>14,710</u>	<u>23,000</u>
<u>Fund Balance</u>					
Undesignated	<u>327,399</u>	<u>483,740</u>	<u>236,055</u>	<u>585,715</u>	<u>1,632,909</u>
Total liabilities and fund balance	<u>\$ 335,689</u>	<u>\$ 483,740</u>	<u>\$ 236,055</u>	<u>\$ 600,425</u>	<u>\$ 1,655,909</u>

See accompanying notes to financial statements.

Merritt Township
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
March 31, 2008

Total fund balance - governmental funds	\$ 1,632,909
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

Cost of the capital assets	1,636,885
Accumulated depreciation	(1,105,843)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Bonds payable	(71,335)
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Accrued interest payable is not included as a liability in
governmental activities

(293)

Total net assets - governmental activities	<u><u>\$ 2,092,323</u></u>
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See accompanying notes to financial statements.

Merritt Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended March 31, 2008

	Debt Service Funds			Other Nonmajor Governmental Funds	Total
	General	Water A & B	Water C, D & E		
<u>Revenues</u>					
Taxes	\$ 60,629	\$ 81,679	\$ 147,067	\$ 360,810	\$ 650,185
State shared revenue	104,835	0	0	1,433	106,268
Collection fees	25,873	0	0	0	25,873
Charges for services	22,624	0	0	0	22,624
Interest	31,006	14,492	4,040	1,306	50,844
Licenses and permits	16	0	0	6,030	6,046
Other	15,678	10,683	19,411	54,220	99,992
Total revenues	<u>260,661</u>	<u>106,854</u>	<u>170,518</u>	<u>423,799</u>	<u>961,832</u>
<u>Expenditures</u>					
General government	180,589	0	0	363	180,952
Public safety	37,315	0	0	159	37,474
Public works	30,368	0	0	161,911	192,279
Recreation activities	0	0	0	1,105	1,105
Protective inspections	0	0	0	9,421	9,421
Sanitation	0	0	0	71,143	71,143
Other	0	143	275	3,163	3,581
Debt Service:					
Principal	0	0	0	88,727	88,727
Interest	0	0	0	6,461	6,461
Payment to Enterprise Fund for debt service	<u>0</u>	<u>80,705</u>	<u>181,436</u>	<u>61,480</u>	<u>323,621</u>
Total expenditures	<u>248,272</u>	<u>80,848</u>	<u>181,711</u>	<u>403,933</u>	<u>914,764</u>
Excess of revenues over (under) expenditures	<u>12,389</u>	<u>26,006</u>	<u>(11,193)</u>	<u>19,866</u>	<u>47,068</u>
<u>Other Financing Sources (Uses)</u>					
Operating transfers in from other funds	0	0	0	33,291	33,291
Operating transfers out to other funds	<u>(10,050)</u>	<u>0</u>	<u>0</u>	<u>(3,316)</u>	<u>(13,366)</u>
Total other financing sources (uses)	<u>(10,050)</u>	<u>0</u>	<u>0</u>	<u>29,975</u>	<u>19,925</u>
Net change in fund balance	2,339	26,006	(11,193)	49,841	66,993
Fund balance - beginning of year	<u>325,060</u>	<u>457,734</u>	<u>247,248</u>	<u>535,874</u>	<u>1,565,916</u>
Fund balance - end of year	<u>\$ 327,399</u>	<u>\$ 483,740</u>	<u>\$ 236,055</u>	<u>\$ 585,715</u>	<u>\$ 1,632,909</u>

See accompanying notes to financial statements.

Merritt Township
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2008

Net change in fund balance - total governmental funds	\$ 66,993
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(66,555)
Capital outlay	2,500
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	365
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long term debt)	<u>88,727</u>
Change in net assets of governmental activities	<u><u>\$ 92,030</u></u>

See accompanying notes to financial statements.

Merritt Township
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended March 31, 2008

Gross service charges	\$ 202,149
Water costs	<u>68,167</u>
Gross profit	<u>133,982</u>
Operating revenues:	
Service connections	71,905
Charges, fees, etc.	<u>186,570</u>
Total operating revenues	<u>258,475</u>
Operating expenses:	
Personal services	75,192
Utilities	3,347
Operation and maintenance	35,427
Administration	8,023
Fiscal and other charges	2,844
Depreciation	<u>129,871</u>
Total operating expenses	<u>254,704</u>
Operating income	137,753
Nonoperating revenues (expenses):	
Interest income	10,041
Interest expense	(140,022)
Payment by local unit	324,039
Payment to local unit	<u>(5,137)</u>
Total nonoperating revenue (expenses)	<u>188,921</u>
Income before transfers	326,674
Transfer out to governmental funds	<u>(19,925)</u>
Changes in net assets	306,749
Net assets - beginning of year	<u>808,604</u>
Net assets - end of year	<u><u>\$ 1,115,353</u></u>

See accompanying notes to financial statements

Merritt Township
Statement of Cash Flows
Proprietary Fund
For the Year Ended March 31, 2008

Cash flows from operating activities:	
Cash received from customers	\$ 381,269
Cash payments to suppliers for goods and services	(86,454)
Cash payments to employees for services	(75,748)
Other operating income	<u>74,225</u>
Net cash provided by operating activities	<u>293,292</u>
Cash outflows from noncapital financing activities:	
Transfer to governmental funds	<u>(19,925)</u>
Cash flows from capital and related financing activities:	
Proceeds from debt	675,000
Principal paid on long-term debt	(219,882)
Interest paid on long-term debt	(141,504)
Acquisition and construction of capital assets	(745,787)
Payments from local units	<u>318,902</u>
Net cash (used) by capital and related financing activities	<u>(113,271)</u>
Cash flows from investing activities:	
Interest income	<u>10,123</u>
Net increase in cash and cash equivalents	170,219
Cash and cash equivalents, beginning of year	<u>177,068</u>
Cash and cash equivalents, end of year	<u><u>\$ 347,287</u></u>
<u>Reconciliation of Operating Income To Net Cash Provided by Operating Activities</u>	
Operating income	\$ 137,753
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	129,871
Changes in assets and liabilities:	
Accounts receivable	(5,130)
Prepaid expenses	5
Accounts payable	31,349
Accrued payroll	(10)
Compensated absences	(546)
Net cash provided by operating activities	<u><u>\$ 293,292</u></u>

See accompanying notes to financial statements

Merritt Township
Statement of Fiduciary Net Assets
March 31, 2008

		<u>Tax Fund</u>
	<u>ASSETS</u>	
Cash and investments		<u>\$ 3,259</u>
	<u>LIABILITIES</u>	
Due to other governmental units		\$ 2,101
Due to governmental funds		<u>1,158</u>
Total Liabilities		<u>\$ 3,259</u>

See accompanying notes to financial statements.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Merritt conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Merritt.

Reporting Entity

The Township of Merritt is governed by an elected five member council (Board). The accompanying financial statements present the financial position and results of operations for the Township and its component units, entities for which the government is considered to be financially accountable.

These statements also include the water system managed by the Bay County Department of Water and Sewer on behalf of the Township. GASB #34 now requires this activity to be reported in the Township's annual financial statements. The Township has sole authority to set rates and is financially responsible for the integrity of the system. The financial statements reflect the financial position and results of operations for the system for the calendar year 2007. This fund is the Township's only proprietary fund.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Government reports the following major funds:

General Fund - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Water A & B – The Water A & B Fund is used to record transactions for the funding and payment of principal and interest of certain water main improvements.

Water C, D & E – The Water C, D & E Fund is used to record transactions for the funding and payment of principal and interest of certain water main improvements.

Bay County Department of Water and Sewer Merritt - This fund accounts for the activities of providing water service to the public. These activities are managed by the Bay County Department of Water and Sewer on behalf of the Township. This fund is the Township's only proprietary fund.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 40 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, equipment and infrastructure is depreciated using the straight-line method over the following useful lives:

Buildings	15 to 40 Years
Building improvements	15 to 20 Years
Water systems	40 Years
Vehicles	7 to 12 Years
Machinery and equipment	5 to 7 Years

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2008

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Township of Merritt follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township's supervisor submits to the Board a proposed budget prior to April 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund is presented as Required Supplemental Information.

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Government is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and investments	<u>\$ 1,592,311</u>	<u>\$ 347,287</u>	<u>\$ 3,259</u>	<u>\$ 1,942,857</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificate of deposit)	\$ 1,942,707
Petty cash and cash on hand	<u>150</u>
	<u>\$ 1,942,857</u>

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2008, \$1,141,553 of the Township's bank balance of \$1,595,567 was exposed to custodial credit risk because it was uninsured and uncollateralized. Business-type activity funds of \$347,287 are with the Department of Water and Sewer. The composition of deposits and investments and the amount of deposits covered by federal depository insurance cannot be determined.

The Township's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<u>Governmental activities:</u>				
Capital assets not being depreciated				
Land	\$ 93,500	\$ 0	\$ 0	\$ 93,500
Capital assets being depreciated:				
Buildings and improvements	812,488	2,500	0	814,988
Vehicles	506,220	0	0	506,220
Machinery and equipment	222,177	0	0	222,177
Subtotal	1,540,885	2,500	0	1,543,385
Less accumulated depreciation for:				
Buildings and improvements	691,985	8,654	0	700,639
Vehicles	218,397	35,891	0	254,288
Machinery and equipment	128,906	22,010	0	150,916
Subtotal	1,039,288	66,555	0	1,105,843
Net capital assets being depreciated	501,597	(64,055)	0	437,542
Governmental activities, total capital assets - net of depreciation	<u>\$ 595,097</u>	<u>\$ (64,055)</u>	<u>\$ 0</u>	<u>\$ 531,042</u>
<u>Business-type activities:</u>				
Capital assets being depreciated:				
Water system	\$ 4,584,853	\$ 745,787	\$ 0	\$ 5,330,640
Less accumulated depreciation for:				
Water system	965,984	129,871	0	1,095,855
Business-type activities, total capital assets, net of depreciation	<u>\$ 3,618,869</u>	<u>\$ 615,916</u>	<u>\$ 0</u>	<u>\$ 4,234,785</u>

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2008

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 10,404
Public safety	<u>56,151</u>
Total governmental activities depreciation expense	<u>\$ 66,555</u>
Business-type activities:	
Water	<u>\$ 129,871</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A summary of inter-fund transfer balances at March 31, 2008 is as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 1,158	\$ 0	\$ 0	\$ 10,050
Liquor law enforcement	0	0	1,400	0
Water F, G & H	0	0	3,316	0
Water construction	0	0	0	3,316
Water J	0	0	19,925	0
Building inspection	0	0	3,650	0
Recreation	0	0	5,000	0
Tax Collection Agency	0	1,158	0	0
Business-type funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>19,925</u>
	<u>\$ 1,158</u>	<u>\$ 1,158</u>	<u>\$ 33,291</u>	<u>\$ 33,291</u>

The inter-fund due from and due to balances resulted from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to (1) supplement operational costs, and (2) reflect funding support for debt service.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2008

NOTE 6– LONG-TERM DEBT

The Township's debt is related to water system improvements and a fire pumper truck. Portions of the Township's debt are reported in the proprietary fund at the Bay County Department of Water and Sewer Merritt Enterprise Fund. The following detail shows what is owed by the Township, but does not agree exactly to the financial statements because (1) the amounts are reported as of December 31, 2007, and (2) a percentage allocation was applied to the total DWS amounts to arrive at Merritt's portion. The difference is not significant.

All of the Township's debt is considered special assessment bonds except for the 1977 bond issue, which is a revenue bond. The Township has pledged its full faith and credit for the special assessment bonds.

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>			
2006 Installment Purchase Agreement, due in annual installments through March 2011, bearing interest at a rate of 5%.	<u>\$ 160,062</u>	<u>\$ (88,727)</u>	<u>\$ 71,335</u>

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
<u>Business-type Activities</u>			
1977 Merritt-Portsmouth Water Extension Bonds, due in annual installments through 2016 with an interest rate of 5%. The bonds are being repaid by customer charges.	\$ 151,353	\$ (13,266)	\$ 138,087
1998 Merritt-Portsmouth Townships Water Extension General Obligation Bonds, dated July 1, 1998, due in annual installments through May 1, 2018, bearing interest rates of 4.7% to 4.75%.	791,509	(61,986)	729,523
2000 Merritt Township Water Extension General Obligation Bonds, dated September 1, 2000, due in annual installments through November 1, 2020, bearing interest rates of 4.85% to 5.25%.	1,555,000	(105,000)	1,450,000
2002 Installment Purchase Agreement, due in annual installments through November 1, 2017, bearing an interest rate of 5.9%.	77,000	(7,000)	70,000
2002 Special Assessment Water Bonds, due in semi-annual installments through November 1, 2017, bearing interest rates of 2.45% to 5.15%.	155,000	(14,000)	141,000
2003 Installment Purchase Agreement, due in annual installments through November 1, 2017, bearing an interest rate of 4.59%.	33,000	(3,000)	30,000
2004 Installment Purchase Agreement, due in annual installments through September 2019, bearing an interest rate of 4.11%.	120,064	(7,741)	112,323
2005 Installment Purchase Agreement, due in annual installments through March 2019, bearing an interest rate of 4.45%.	110,509	(7,888)	102,621
2007 Capital Improvement Bonds, due in annual installments through November 2027, not to exceed 7% per annum.	0	675,000	675,000
Total Business-Type Activities	<u>\$ 2,993,435</u>	<u>\$ 455,119</u>	<u>\$ 3,448,554</u>

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Long-term obligation activity can be summarized as follows:

	Balance April 1, 2007	Additions	Retirements and Payments	Balance March 31, 2008	Amount Due Within One Year
<u>Governmental Activities</u>					
General Obligation Bonds	<u>\$ 160,062</u>	<u>\$ 0</u>	<u>\$ (88,727)</u>	<u>\$ 71,335</u>	<u>\$ 39,045</u>
<u>Business-Type Activities</u>					
Revenue Bonds	<u>\$ 2,993,435</u>	<u>\$ 675,000</u>	<u>\$ (219,881)</u>	<u>\$ 3,448,554</u>	<u>\$ 222,604</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End March 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 39,045	\$ 6,144	\$ 222,604	\$ 165,621
2010	32,290	4,192	255,698	149,983
2011	0	0	256,439	138,320
2012	0	0	267,213	130,411
2013	0	0	313,246	118,459
2014-2018	0	0	1,304,229	375,726
2019-2024	0	0	614,120	105,150
2025-2027	<u>0</u>	<u>0</u>	<u>200,000</u>	<u>29,100</u>
Total	<u>\$ 71,335</u>	<u>\$ 10,336</u>	<u>\$ 3,433,549</u>	<u>\$ 1,212,770</u>

NOTE 7 – PENSION PLAN

The Township provides pension benefits through a defined contribution plan with Manulife Financial. The Township contributes 15% of compensation for eligible employees. The Township's pension expense for the year ended March 31, 2008 amounted to \$8,570.

Merritt Township
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended March 31, 2008

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Taxes	\$ 56,824	\$ 56,824	\$ 60,629	\$ 3,805
State shared revenue	100,000	100,000	104,835	4,835
Collection fees	24,203	24,203	25,873	1,670
Charges for services	21,050	21,000	22,624	1,624
Interest	23,500	23,500	31,006	7,506
Licenses and permits	5	55	16	(39)
Other	7,000	7,000	15,678	8,678
Total revenues	232,582	232,582	260,661	28,079
<u>Expenditures</u>				
General government	194,150	200,350	180,589	19,761
Public safety	56,000	56,260	37,315	18,945
Public works	27,800	31,375	30,368	1,007
Capital outlay	10,000	10,000	0	10,000
Contingency	200,640	187,105	0	187,105
Total expenditures	488,590	485,090	248,272	236,818
Excess (deficiency) of revenues over expenditures	(256,008)	(252,508)	12,389	264,897
<u>Other Financing (Uses)</u>				
Operating transfers (out) to other funds	(6,550)	0	(10,050)	(10,050)
Net change in fund balance	(262,558)	(252,508)	2,339	254,847
Fund balance - beginning of year	325,060	325,060	325,060	0
Fund balance - end of year	\$ 62,502	\$ 72,552	\$ 327,399	\$ 254,847

Merritt Township
Other Supplemental Information
Combining Balance Sheet -
Nonmajor Governmental Funds
March 31, 2008

	Special Revenue Funds							Debt Service Funds							
	Liquor Law Enforcement Fund	Road Construction Fund	Fire Equipment Fund	Garbage and Rubbish Collection Fund	Recreation Fund	Inspection Fund	Budget Stabilization Fund	Water F, G & H	Water Blumfield	Water I	Water J	Water K	Capital Projects	Totals	
<u>ASSETS</u>															
Cash and investments	\$ 173	\$ 179,700	\$ 74,245	\$ 93,411	\$ 5,319	\$ 1,763	\$ 23,209	\$ 48,143	\$ 26,072	\$ 38,386	\$ 31,598	\$ 53,457	\$ 0	\$ 575,476	
Taxes receivable	0	7,706	4,001	5,576	0	0	0	2,429	0	0	0	5,237	0	24,949	
Total assets	<u>\$ 173</u>	<u>\$ 187,406</u>	<u>\$ 78,246</u>	<u>\$ 98,987</u>	<u>\$ 5,319</u>	<u>\$ 1,763</u>	<u>\$ 23,209</u>	<u>\$ 50,572</u>	<u>\$ 26,072</u>	<u>\$ 38,386</u>	<u>\$ 31,598</u>	<u>\$ 58,694</u>	<u>\$ 0</u>	<u>\$ 600,425</u>	
<u>LIABILITIES AND FUND BALANCE</u>															
<u>Liabilities</u>															
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 6,151	\$ 0	\$ 214	\$ 0	\$ 0	\$ 8,345	\$ 0	\$ 0	\$ 0	\$ 0	\$ 14,710	
<u>Fund Balance</u>															
Undesignated	173	187,406	78,246	92,836	5,319	1,549	23,209	50,572	17,727	38,386	31,598	58,694	0	585,715	
Total liabilities and fund balance	<u>\$ 173</u>	<u>\$ 187,406</u>	<u>\$ 78,246</u>	<u>\$ 98,987</u>	<u>\$ 5,319</u>	<u>\$ 1,763</u>	<u>\$ 23,209</u>	<u>\$ 50,572</u>	<u>\$ 26,072</u>	<u>\$ 38,386</u>	<u>\$ 31,598</u>	<u>\$ 58,694</u>	<u>\$ 0</u>	<u>\$ 600,425</u>	

Merritt Township
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes
in Fund Balance - Nonmajor Governmental Funds
For the Year Ended March 31, 2008

	Special Revenue Funds						Debt Service Funds					Capital Projects Fund		
	Liquor Law Enforcement Fund	Road Construction Fund	Fire Equipment Fund	Garbage and Rubbish Collection Fund	Recreation Fund	Inspection Fund	Budget Stabilization Fund	Water F, G & H	Water Blumfield	Water I	Water J	Water K	Water Fund Construction	Totals
<u>Revenues</u>														
Taxes	0	146,113	75,895	63,800	0	0	0	20,800	0	10,160	11,496	32,546	0	360,810
State shared revenue	1,433	0	0	0	0	0	0	0	0	0	0	0	0	1,433
Interest	0	0	0	0	0	0	0	83	45	195	0	983	0	1,306
Other	0	2,879	0	0	0	0	0	14,802	0	11,374	0	25,165	0	54,220
Licenses and permits	0	0	0	0	0	6,030	0	0	0	0	0	0	0	6,030
Total revenues	1,433	148,992	75,895	63,800	0	6,030	0	35,685	45	21,729	11,496	58,694	0	423,799
<u>Expenditures</u>														
General government	0	363	0	0	0	0	0	0	0	0	0	0	0	363
Public safety	0	0	159	0	0	0	0	0	0	0	0	0	0	159
Public works	0	161,911	0	0	0	0	0	0	0	0	0	0	0	161,911
Recreation activities	0	0	0	0	1,105	0	0	0	0	0	0	0	0	1,105
Protective inspections	0	0	0	0	0	9,421	0	0	0	0	0	0	0	9,421
Sanitation	0	0	0	71,143	0	0	0	0	0	0	0	0	0	71,143
Other	3,163	0	0	0	0	0	0	0	0	0	0	0	0	3,163
Debt Service:														
Principal	0	0	88,727	0	0	0	0	0	0	0	0	0	0	88,727
Interest	0	0	6,461	0	0	0	0	0	0	0	0	0	0	6,461
Payment to Enterprise Fund for debt service	0	0	0	0	0	0	0	35,955	0	12,740	12,785	0	0	61,480
Total expenditures	3,163	162,274	95,347	71,143	1,105	9,421	0	35,955	0	12,740	12,785	0	0	403,933
Excess of revenues over (under) expenditures	(1,730)	(13,282)	(19,452)	(7,343)	(1,105)	(3,391)	0	(270)	45	8,989	(1,289)	58,694	0	19,866
<u>Other Financing Sources/(Uses)</u>														
Operating transfers in	1,400	0	0	0	5,000	3,650	0	3,316	0	0	19,925	0	0	33,291
Operating transfers out	0	0	0	0	0	0	0	0	0	0	0	0	3,316	3,316
Total other financing sources (uses)	1,400	0	0	0	5,000	3,650	0	3,316	0	0	19,925	0	(3,316)	29,975
Net change in fund balance	(330)	(13,282)	(19,452)	(7,343)	3,895	259	0	3,046	45	8,989	18,636	58,694	(3,316)	49,841
Fund balance - beginning of year	503	200,688	97,698	100,179	1,424	1,290	23,209	47,526	17,682	29,397	12,962	0	3,316	535,874
Fund balance - end of year	\$ 173	\$ 187,406	\$ 78,246	\$ 92,836	\$ 5,319	\$ 1,549	\$ 23,209	\$ 50,572	\$ 17,727	\$ 38,386	\$ 31,598	\$ 58,694	\$ 0	\$ 585,715



WEINLANDER FITZHUGH

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July 1, 2008

Township Board
Township of Merritt
Bay County, Michigan

In planning and performing our audit of the financial statements of Township of Merritt as of and for the year ended March 31, 2008, in accordance with U.S. generally accepted auditing standards, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies. However as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Financial Statement Presentation

Our professional standards now define an element of internal control as an Organization's ability to prepare a complete set of financial statements with footnotes in accordance with U.S. generally accepted accounting principles. We are required to communicate to the Board of Directors if the Organization is unable to complete this task without assistance from its auditor.

It is not uncommon that many small and medium size organizations cannot provide the resources to accomplish this task. This is the situation with the

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Township of Merritt
July 1, 2008
Page 2

Organization. This comment is not intended to reflect on the performance or capability of any employee.

However, we have reviewed the periodic financial reporting prepared by management and provided to the Board and determined it is appropriate for the size of the Organization. This information appears to meet the reporting requirements of the Board and provides it sufficient information for it to perform its oversight responsibilities.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

Segregation of duties

One of the strongest controls in an internal control system is known as "segregation of duties." This means that there are different individuals performing different duties within a specific accounting function. Having multiple individuals performing duties in the same accounting function acts as a check and balance.

As is common in many small organizations, there is often only a few people, sometimes only one person, performing the accounting and financial functions and it is also common to have these individuals concentrate their efforts in one area. While this is usually more cost efficient, it lends for a weak internal control system. There are generally insufficient checks and balances in place.

This is the situation with the Township of Merritt. Due to limited staff size, the Township has a lack of segregation of duties with respect to the cash receipts accounting functions because the duties are centralized with one individual.

This communication is intended solely for the information and use of management, and the Township Board and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh